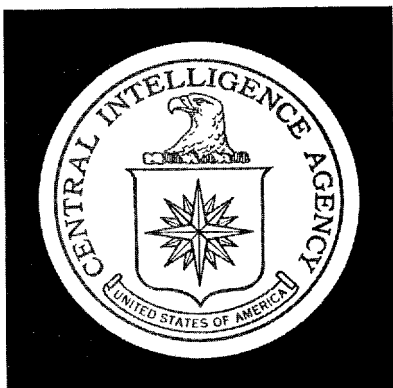


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52

24 May 1968

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SECRET

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Central Intelligence Bulletin

CONTENTS

France: The government still faces major hurdles.
(Page 1)

Czechoslovakia-USSR: Prague's leaders begin new
talks with Kosygin. (Page 2)

USSR: The economic program is allegedly a success,
but many problems remain. (Page 3)

Communist China: Peking media are calling for the
purge of additional "traitors." (Page 4)

West Germany: The government is pushing for quick
approval of controversial emergency legislation.
(Page 5)

Spain: Madrid alleges US balance-of-payments program
has hurt the Spanish economy. (Page 6)

Yugoslavia: A plan to upgrade the status of an
autonomous province could become a divisive issue.
(Page 7)

Panama: The potential remains for a head-on clash
between government and opposition. (Page 8)

Peru: Anti-US sentiment is rising. (Page 9)

Honduras: Opposition party leaders are withdrawing
from government posts. (Page 10)



South Vietnam: Military situation (Page 12)

USSR-Chile: Praise from Moscow (Page 12)

SECRET

SECRET

France: The government still faces major hurdles despite its parliamentary victory on 22 May.

The failure of the Communist and other leftist parties to bring down the government through a censure motion apparently has not weakened the determination of the unions to hold out for substantial concessions. Secretary General Georges Seguy of the Communist-dominated General Confederation of Labor (CGT), who is emerging as the chief labor spokesman, has emphasized that the strikes would continue to spread until workers were guaranteed that their demands would be met. The CGT, after initial hesitancy in the early days of the spontaneous strike movement, is now regaining the initiative in the labor arena.

The government also must deal shortly with rising discontent among police forces. In a communiqué issued after a meeting yesterday of the interfederal police union, policemen warned they might question their orders if police are used systematically against strikers. The communiqué emphasized that police could not serve a regime that did not respect republican institutions. The government has not yet responded to police demands earlier this week for pay raises.

Police attitudes are particularly critical in the light of announced student plans for further mass demonstrations. The government, fearing new trouble after yesterday's outbreak of violence, called on students to break with agitators. The government promised that university reforms would take place and that the students would "be associated with them."

Farm organizations also plan to hold demonstrations today.

25X1

24 May 68

1

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Czechoslovakia-USSR: Czechoslovak leaders have begun another round of negotiations with Soviet Premier Kosygin as both sides, despite the underlying tension, continue to conduct business in routine fashion.

Party leader Dubcek and Premier Cernik flew to Karlovy Vary on 22 May, presumably for further discussions with Kosygin. Both sides are attempting to give the impression that there is no urgency to the talks.

[The Czechoslovaks may be discussing credit with Kosygin, but may not be hopeful of obtaining a loan from the USSR on acceptable terms. Within the last few days, the Czechoslovaks reportedly requested a \$100-million loan from France, "no matter what the interest rate."]

Moscow has yet to reduce its psychological pressure against Prague by removing its troops positioned along the Czechoslovak borders, or by ending its press campaign against Czechoslovakia. Pravda continues to report selectively and to publish distorted stories on Czechoslovak developments. Czechoslovak journalists for their part continue to criticize their Soviet counterparts. The Berlin correspondent of Rude Pravo, the party's main daily, also lashed out at the East Germans yesterday.

The Czechoslovak party presidium yesterday reaffirmed in low-key fashion that the party intends to remain in effective control by enjoining other political parties from setting up youth organizations and by condemning "the attempts of a small group" to re-establish the Social Democratic Party. It also affirmed that Czechoslovakia will participate "actively" in the "international Communist movement." In another possible gesture to Moscow, the presidium stressed that Rude Pravo will be the principal voice of the party. It nevertheless asserted again that the party will carry out its reform program.

25X1
24 May 68

2

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USSR: A four-day national conference held last week in Moscow to assess the progress of the economic reform program apparently accomplished little.

Scanty press reporting claimed that the conference considered the program in general a success. The reform, begun in 1965, represents an effort to increase economic efficiency, chiefly by revising incentives and increasing the responsibilities of enterprise personnel.

The conference failed, however, to offer solutions to the many problems mentioned, including bureaucratic inertia, supply failures, complicated systems for calculating incentive funds, unstable plans, and inadequate credit financing. Moreover, it apparently took no action on the fundamental questions peculiar to the Soviet system, such as how to achieve the correct balance between centralized planning and the economic independence of enterprises, and how best to set prices.

The economic reform now embraces 11,000 enterprises accounting for about half of total industrial production as well as a number of enterprises in transport, construction, and other sectors. Almost all industry is expected to be included by the end of this year. Difficulties already evident are likely to increase in the coming months as thousands of the smaller, less-efficient enterprises begin to operate under the reform system.

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Communist China: Peking media have been demanding the purge of additional "traitors," but no significant figures have fallen since the acting chief of staff was sacked in late March.

The failure to move against new victims suggests that the leadership either is in disagreement or is not yet ready to act. If the latter is the case, when action is taken it could be extreme. Official pronouncements made since March sound tougher and shriller than any published since last summer.

Peking has republished inflammatory portions of a circular of 16 May 1966 which presented Mao's case against politburo member Peng Chen and started the overt phase of the Cultural Revolution. A commentary on the second anniversary of this circular, supplied jointly by editors of People's Daily, Red Flag, and Liberation Army Daily, referred to arduous struggles ahead and said that the country must continue to follow Mao's instruction to "put destruction first."

It listed all the key "revisionists" brought down thus far in the Cultural Revolution, but omitted mention of the extreme leftist group that was expelled last fall and winter. This suggests a decision to stop publicizing the sins of this group, which was responsible for executing programs of the radical Cultural Revolution Group last year.

Propaganda accusations in the past two months against Liu Shao-chi and other victims have shifted emphasis from their ideological errors to the charge that they are traitors and Kuomintang or "enemy" agents. This shift could be a sign that preparations are under way for applying legal sanctions against them, although such a move still seems unlikely. [redacted] comments that this would be contrary to Chinese Communist practice, but if it were attempted it could produce a show that would make the Moscow trials of the 1930s look like a Sunday school picnic. [redacted]

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24 May 68

4

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West Germany: The government is striving for swift parliamentary approval of controversial emergency legislation.

A series of laws is involved that would empower the Bonn government to take extraordinary measures in a national crisis. This would involve transferring the so-called reserved rights for emergency situations from the former Allied occupiers to the Federal Republic. Those opposed to the legislation claim that the powers it grants to the government--including the rights to establish an emergency parliament, to enforce economic controls, and to monitor the mails and telephones--could serve as a prelude to another dictatorship. The government insists that it needs emergency powers to defend the Federal Republic.

Student demonstrations against the legislation have been taking place, and are likely to intensify this weekend and early next week. Trade union leaders by and large have rejected student demands for massive strike action, but some work stoppages may occur.

Chancellor Kiesinger has postponed a visit to Spain and Portugal to be on hand for the third and final reading by the Bundestag on 29 May. The leadership of the Social Democratic Party, overriding strong internal opposition from labor and left-wing elements, has rallied the bulk of the party's parliamentary delegation behind the legislation. This will provide the two-thirds majority necessary for constitutional amendments.

Government leaders are convinced that the legislation--which has been under consideration in various forms for more than ten years--can now be passed. They believe that once this is done, the controversy over the matter will subside.

24 May 68

5

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Spain: The recent US moratorium on private investment in Spain has had little impact on the Spanish economy.

25X1

[REDACTED] Although the US is the heaviest foreign investor in Spain, foreign investment in general accounts for only about five percent of total investment in the economy. Since the moratorium went into effect, US firms operating in Europe have been able generally to finance their operations from European sources, and so far have not had to cut back their activity.

25X1

[REDACTED] the Spanish Government continues to insist that Spain's economy has been severely injured and that the country should therefore be reclassified under the US balance-of-payments program to permit it to receive some direct investment. Madrid's stance is intended in part to relieve Spain's economic situation and in part to strengthen its bargaining position in the forthcoming renegotiation of the US bases agreement. [REDACTED]

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Yugoslavia: A proposal for upgrading the autonomous province of Kosovo-Metohija (the Kosmet) to the equivalent of a republic could exacerbate the traditional Serbian-Albanian conflict.

The proposal by the president of the Kosmet, a region that is 67-percent Albanian, would establish the province as an independent unit in the Yugoslav federal system and remove it from Serbian suzerainty. Under the plan the area would be represented in the Chamber of Nationalities, establish independent courts, and collect its own taxes. Albanians could observe their national holidays, use their national symbols and flags, and upgrade the status of the Albanian language.

The Serbian assembly has intimated that it will raise the constitutional status of the Kosmet, but this will meet with strong resistance from the Serbs generally, for whom the Kosovo historically is hallowed ground. The Serbs will also be concerned that the plan will remove a large bloc of votes from their control in the federal assembly.

Fulfillment of Albanian aspirations might stimulate nationalist feelings of other minorities in Yugoslavia.

25X1

24 May 68

7

Approved For Release 2005/05/12 : CIA-RDP79T00975A011300010001-4

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Panama: The potential for a head-on clash remains as both government and opposition forces persist in claims of victory.

Renewed violence between armed toughs of both camps erupted on 22 May in a shooting spree in which 22 persons were injured before the National Guard restored order. Bombings, sniper fire, and sporadic terrorism are adding to the tense atmosphere in Panama City.

Repeated calls for street violence by irresponsible and inflammatory news media are to blame for some of the extremist action. One progovernment tabloid threatened "chaos" if Samudio is defeated and reported the formation of a "popular militia" to kill the oligarchs and burn their houses.

The latest official voting results show Arnulfo Arias' lead continuing to grow in Panama Province; this may have prompted Samudio partisans to touch off some of the violence. The US Embassy yesterday commented that this violence is a sign of the growing desperation of the die-hard Samudio forces and of the determination of Arias' followers to preserve his victory.

[In still another desperate effort to offset Arias' increasing lead in the early vote tabulation, the government-controlled Electoral Tribunal yesterday appointed a Samudio sympathizer to replace the pro-Arias president of the National Elections Board. Although Arias retains a six-to-four majority on the board, the president can cast a vote in case of a tie. This obvious chicanery may hasten a showdown between the two sides.]

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Peru: Anti-US sentiment is rising in reaction to reports that aid to Peru will be cut off because of its purchases of Mirage aircraft and Canberra bombers.

This anti-Americanism is having political repercussions despite the fact that the Belaunde administration is now trying to play down somewhat its initial hostile reaction. Both houses of congress have passed resolutions rejecting the supposed cut-off of US aid. Severe criticism of the US was heard during the debate on the Senate motion. The small Christian Democratic Party's presidential nominee for the 1969 elections called on the executive to suspend payments on Peru's debt to the US and to study means of canceling US mining concessions. The finance minister resigned on 22 May when he realized that the tax reform to which he was committed was doomed as a result of a US statement that Peruvians interpreted as pressure for tax reforms.

On 21 May, Air Minister Gagliardi stated that the military purchases had been made with Peruvian funds and that Peru would not tolerate being told what it should buy. He added that Peru would have bought aircraft from behind the Iron Curtain had suitable ones been offered. Gagliardi indicated that the Mirages might be on display during independence day ceremonies on 28 July.

The public controversy over US aid to Peru may also have facilitated the election of an extreme leftist, Pena Cabrera, to the leadership of the Lima organization of President Belaunde's Popular Action Party. In his victory speech, Pena called for the nationalization of the US-owned International Petroleum Company.

24 May 68

9

SECRET

SECRET

Honduras: Leading members of the opposition Liberal Party have stated that they are withdrawing from their government posts in compliance with orders issued by the recent party convention.

The move is primarily an attempt to force President Lopez to dismiss Minister of the Presidency Ricardo Zuniga, who engineered the widespread fraud in the municipal elections on 31 March.

Two prominent Liberal deputies and a Supreme Court justice have already announced they will quit. Although lesser party members may not give up well-paying posts, the US Embassy believes that other leading deputies will comply with the order.

The Liberals lack military backing and have little prospect of toppling President Lopez. They hope, however, that Lopez will be reluctant to turn Honduras into a one-party state and that their unified stance will prompt him to renew negotiations with them.

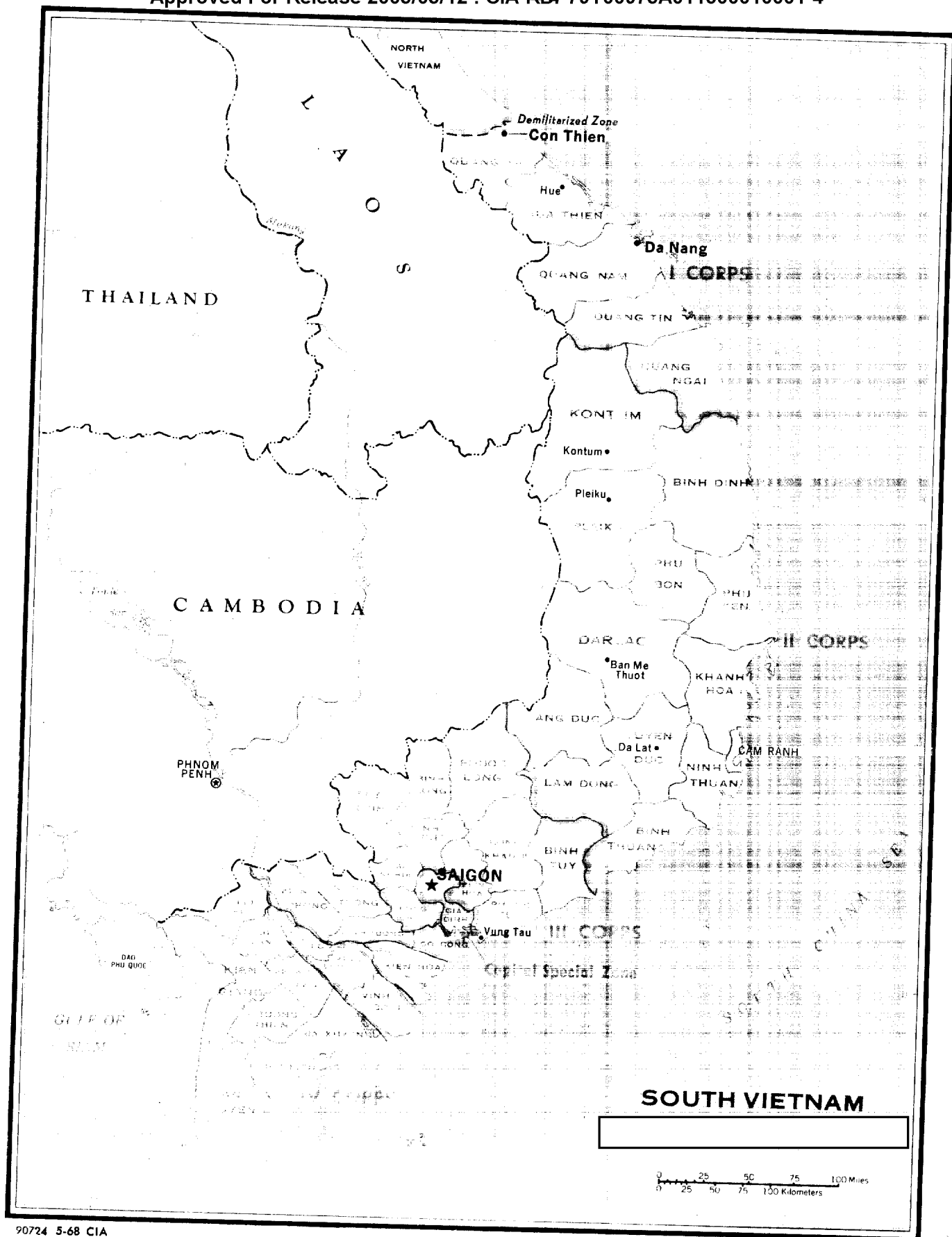
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25X1 [South Vietnam: Communist forces are keeping up the pressure against selected allied positions in the northern provinces. Sharp fighting occurred near Con Thien and Da Nang on 22-23 May, and ground probes were mounted elsewhere in I Corps. In addition, two strong Communist ground attacks were reported in the III Corps area in the same period, and light mortar attacks hit the Cholon section of Saigon. [REDACTED]

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25X1 USSR-Chile: Moscow has defined its attitude toward President's Frei's Christian Democratic government in an exceptionally laudatory article published in Pravda on 18 May. The intention plainly was to show that Moscow agrees with the Chilean Communist Party's policy of cooperating with Frei on selected legislative issues in an effort to achieve a broad front of left-wing elements, including non-Marxists. The article advises the Christian Democratic Party that its future depends on a "movement to the left" and warns it to beware of foreign and domestic reactionary pressures, which it links with US policy. In this, the Soviets are supporting the efforts of the Chilean Communists to move government policy more to the left and strengthen the role of the leftist element of the Christian Democrats. [REDACTED]

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